

CHOICE Program

(Choices in Home Ownership Incentives Created for Everyone)

FACT SHEET

PROGRAM SUMMARY:

CHOICE is the New Jersey Housing and Mortgage Finance Agency's ("HMFA") demonstration construction loan and subsidy program designed to encourage the development of a mix of affordable and market single-family for-sale housing throughout New Jersey. The program provides construction financing and CHOICE subsidy, as well as end-loan financing, for the development of non-inclusionary Deed Restricted Affordable Units, Emerging-Market Units and Deed Restricted Middle Income Units. Financing, without subsidy funding, is available for the construction and eligible end-loan financing of Market Unit developments.

CHOICE offers a menu of housing options to allow for the creation of housing which meets the diverse economic development needs of New Jersey's towns and cities. Projects may include Deed Restricted Affordable Units, Emerging-Market Units, Middle Income Units, or Market Units or, in some developments a combination of two or more of these housing types. Guidelines with regard to income limits, subsidy amounts and re-sale restrictions differ depending on the housing type.

PROGRAM FEATURES:

- Below market interest rate construction loans.
- More generous CHOICE subsidy funding will bridge the gap between the cost of construction and the sales price of units for all housing types except Market Units.
- Below-market interest rate homebuyer end loans and closing cost/down payment assistance funds are available to eligible units and home buyers.
- Streamlined construction lending/subsidy draw procedures through a Lead Lender operating under an Intercreditor Agreement with the HMFA.
- Increased per project subsidy amounts to up to \$4 Million in Choice Subsidy.
- Increases developer fees for restricted units (1 bedroom \$16,000, 2 bedroom \$18,000, 3 bedroom \$20,000, 4 bedroom \$22,000). Developer fees are unlimited on Market Units.

ELIGIBLE PROJECTS:

Housing projects may include one or a combination of the following four unit types:

1) **DEED RESTRICTED AFFORDABLE UNITS:**

- **Definition:** Deed Restricted Affordable Units are single-family units that are income-restricted for purchase by low- or moderate-income households for a term of at least 30 years and that are located within a project that sets-aside at least 15% of its units for purchase as follows:

5% low-income units priced at 45% Area Median Income (AMI) but affordable to buyers at 50%

5% moderate-income units priced at 55% AMI, but affordable to buyers at 60%

5% moderate-income units priced at 72% AMI, but affordable to buyers at 80%

Affordable units in excess of the 15% set-aside can be priced as affordable to low- or moderate-income households with minimum ranges of affordability at least as restrictive as permitted in the Uniform Housing Affordability Controls in all cases at least 1/3 of the total affordable units must be restricted for low-income affordability.

- **Subsidy:** The maximum average per unit subsidy is \$100,000.
- **Eligible Locations and Key Features:**

Projects located in any municipality that has been eligible to receive Urban Aid at any time since 1988, that is a designated Regional Center, Town Center, Transit Village, Urban Target City under the 1990 or 2000 Census, or is an Economic Recovery Act municipality.

2) **EMERGING MARKET UNITS:**

- **Definition:** Emerging Market Units are single-family units developed in Agency recognized non-viable markets (areas where the market price of a for-sale unit is equal to or less than the reasonable cost of acquiring the land and developing the unit).
- **Subsidy:** The maximum average subsidy is \$75,000. Maximum subsidy per unit in a designated Economic Recovery Act eligible city is \$100,000.

- **Key Features:**

Units are to be located in an Urban Target Area, or an Economic Recovery Act municipality, or a municipally designated redevelopment area or census tract where the median income for all households is less than 80% of the median county income and the municipality through its planner, or licensed professional with relevant skills, such as an appraiser, states that the reasonable cost of developing and constructing market rate for-sale housing is expected to exceed the fair market value of the property and is therefore the market is not viable. The Agency reserves the right to make the final determination within its exclusive judgment that any project site is non-viable.

Emerging Market Units may be sold at market prices without regard to the income of the borrower.

Shared appreciation requirement: Emerging Market Units will carry a 30-year Shared Equity Appreciation Deed Restriction. If the property is sold within three years, the HMFA will receive 100% of the net appreciation. During years 4 through 30, the HMFA portion will equal 25% of the net appreciation at the time of sale or cash-out refinance. The shared appreciation will remain in effect for a maximum of 30 years, but may terminate sooner if the CHOICE Subsidy principal amount plus accrued interest attributable to the unit is repaid in full. This lien will not be subordinated unless there is an appraisal that discloses that there is adequate equity in the unit to repay the CHOICE Subsidy lien.

Must provide at least 15% Affordable Units apportioned with the same Range of Affordability (ROA) as the minimum set-aside for Deed Restricted Affordable Units.

If combined with Deed Restricted Affordable Units, not more than 50% of the affordable units can be low-income.

3) **MIDDLE-INCOME UNITS:**

- **Definition:** Middle-Income Units are single-family units located in viable homeownership market Census Tract or Block (areas where the market price of a for-sale unit is greater than the reasonable cost of acquiring the land and developing the unit), but where the households have median incomes substantially lower than the median incomes needed to qualify for the median mortgage loan in their Census area.
- **Subsidy:** The maximum average subsidy is \$75,000.

- **Key Features:**

Units must be located in a Census Tract or Block Group that is characterized by housing and economic conditions that are indicative of a viable homeownership market that has become unaffordable to the majority of households residing in the census tract.

The Census Block Group, data indicates that the median household income is below 80% of the county median, that there is at least a 50% rental population, that the median household income in the census tract is less than 70% of the amount needed to pay the median mortgage payment for the census tract (EXAMPLE: median monthly household income/max PITI \$2,403 X .3 = \$721 divided by median mortgage payment amount \$1,898 = 38% of the amount needed to qualify for the median mortgage payment).

Units are deed restricted for at least 30 years for purchase by households under 120% of county median-income and priced as affordable to households earning 80% of the county median household income.

4) **MARKET UNITS:**

- **Definition:** Market Units do not receive any CHOICE Subsidy and are not subject to affordability or shared appreciation deed restrictions. Market Units can receive construction loan financing from the Agency on a pro rata basis with funding from a co-lead lender.

- **Subsidy:** No CHOICE Subsidy or CHOICE priced construction loan is provided.

- **Key Features:**

No restrictions on prices or incomes, but at least 5% of the units must be set-aside as deed restricted low-income affordable units. No CHOICE Subsidy is provided for the required low-income affordable units. Note that if 15% of the units are priced to meet the 15% Affordable Unit project set-aside requirements that CHOICE Subsidy will be provided for the affordable units.

MARKET ASSURANCE OPTION:

- Developers may apply for a CHOICE Subsidy for designated EMU units when the project is located in an area that is perceived to be on the verge of becoming a viable market.
- The project will be underwritten and funded as an EMU with CHOICE Subsidy. The decision to proceed as a market or EMU unit can be made up to the time of sale of the unit.
- If the CHOICE Subsidy is taken the unit will receive a shared appreciation deed and second mortgage. If the subsidy is not taken the unit will be sold at market rate and the unit will not be restricted.

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ELIGIBILITY REQUIREMENTS FOR ALL TYPES OF PROJECTS:

- Located in Smart Growth areas.
- Meet NJ Energy Star certification standards, unless there is a particular hardship acceptable to the Agency.
- Contain at least 5% Affordable Units of which at least 1/3 of the affordable units are targeted to low-income households.
- Scattered site projects are limited in unit size to the number of site-controlled units plus 20.

Example: If the sponsor has site control of five properties, the project will be capped at 25 units. If the sponsor does not have any units under site control, the maximum number of units is 20.

- Projects containing a mix of Affordable Units and Market Units, where the Affordable Units are segregated or externally distinguishable from the Market Units are not eligible.
- The rental units on two-family homes are not eligible for subsidy funds

MAXIMUM SUBSIDY AMOUNT:

- The maximum subsidy amount for a project is \$4 Million. The Agency will consider phased projects that in the aggregate exceed the subsidy cap. All subsidy is conditioned on availability of funds.